

Service Date: September 29, 2004

**DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA**

IN THE MATTER of the Application)	
of NORTHWESTERN CORPORATION for)	UTILITY DIVISION
Authority to Issue Warrants and Up)	Docket No. D2004.8.137
to an Additional 7.571 Million Shares)	Order No. 6596
of Common Stock)	

FINAL ORDER

1. On August 25, 2004, NorthWestern Corporation (“NorthWestern” or “Applicant”), a Delaware corporation authorized to transact business within Montana, filed with the Montana Public Service Commission (“Commission”) an application for the issuance of securities (“Application”) pursuant to Montana Code Annotated (“MCA”) §§ 69-3-501 through 69-3-507 (2001), seeking:

(a) An Order authorizing NorthWestern to issue warrants and an additional 5.305 million shares of new common stock in order to implement a settlement agreement with Harbert Management Corporation (“Harbert”) and Wilmington Trust Company (“Wilmington Trust”) (collectively referred to as the “Harbert Settlement”); and

(b) An Order authorizing NorthWestern to issue an additional 2.266 million shares of new common stock to implement a potentially broad-based employee incentive plan.

2. By that certain Final Order dated August 3, 2004 entered in Docket No. D2004.7.118 and referenced as Default Order No. 6581 (the “August 3 Order”), the Commission approved NorthWestern’s prior application (the “Exit Financing Application”) to enter into proposed financing facilities (the “Exit Financing Facilities”) and the issuance of up to 35.5 million shares of common stock which were integral parts to NorthWestern’s proposed plan of reorganization

dated as of May 17, 2004 (“First Amended Plan”) and scheduled for confirmation before the United States Bankruptcy Court for the District of Delaware (the “Bankruptcy Court”) on August 25, 2004. This current application also is part of NorthWestern’s comprehensive plan to exit Chapter 11 and to strengthen Northwestern’s financial condition, improve its credit profile and position NorthWestern for stable, long term performance as a public utility serving customers in Montana.

3. The issuance of the warrants and additional common stock as proposed in the current application serves two purposes: (1) to implement the Harbert Settlement as discussed in the Application and (2) to implement employee incentive plans by reorganized NorthWestern’s new board of directors post-reorganization as discussed in the application. The application does not identify the purposes for which the proceeds, if any, from the exercise of the warrants will be used.

4. The application is supported by exhibits and data in accordance with Commission practice and rules and regulations governing the issuance and sale of securities by public utilities operating within the State of Montana.

5. The application states that Applicant is a public utility as defined in MCA § 69-3-101, in that it furnishes electric and natural gas service in the State of Montana through NorthWestern Energy, a division of NorthWestern; that its principal executive office for its Montana operations is at 40 East Broadway, Butte, Montana; and that Applicant is duly qualified to do business in the State of Montana. For detailed information with respect to the general character of NorthWestern’s business and the territory served by it, reference is made to the application.

FINDINGS

1. NorthWestern is a corporation organized and existing under and by virtue of the laws of the State of Delaware and is qualified to transact business in the State of Montana.

2. NorthWestern is a public utility as defined in MCA § 69-3-101 and is engaged in furnishing electric and natural gas service in the State of Montana through its division, NorthWestern Energy.

3. The Commission has jurisdiction over the subject matter of the application pursuant to MCA §§ 69-3-501 through 69-3-507.

4. With respect to the Harbert Settlement, the application states that the proposed issuance of warrants and issuance of an additional 5.305 million shares of new common stock is part of a compromise and settlement of objections to the Plan filed by Harbert Management Corporation (“Harbert”) and Wilmington Trust Company, as Indenture Trustee (“Wilmington Trust”), and results from negotiations by and among NorthWestern, its Official Committee of Unsecured Creditors (the “Committee”), Harbert and Wilmington Trust. The compromise and settlement (the “Harbert Settlement”) has been incorporated into NorthWestern’s Second Amended and Restated Plan of Reorganization under Chapter 11 of the Bankruptcy Code dated as of August 18, 2004 (referred to as the “Second Amended Plan”, while the First Amended Plan and the Second Amended Plan are collectively referred to as the “Plan”) and resolves Harbert’s and Wilmington Trust’s objections to confirmation of the Plan.

5. The application states that the Harbert Settlement will result in an increase in distribution of the Commission’s previously approved issuance of common stock to NorthWestern’s subordinated creditors from the two percent (2%) provided for in the First Amended Plan to eight percent (8%) provided for in the Second Amended Plan. The Harbert Settlement also provides that the subordinated creditors will share, pro rata, in warrants exercisable for an additional thirteen percent (13%) of reorganized NorthWestern’s newly issued common stock. Neither the warrants nor this additional common stock were provided for in the Exit Financing Application, and thus, not approved by the Commission in the August 3 Order.

6. With respect to the Employee Incentive Plan, the application states that the proposed issuance of an additional 2.266 million shares of new common stock is part of a negotiated agreement for the implementation of a potentially broad-based employee incentive plan, which

may, at the discretion of NorthWestern's new board of directors, include all employees not just management. The Employee Incentive Plan has been incorporated into the Second Amended Plan.

7. According to the application, any incentive plan, and therefore any issuance of common stock, will be developed, approved and implemented solely by NorthWestern's new board of directors, provided, however, a very limited amount of shares, 228,320, shall be reserved and allocated to management as Special Recognition Grants, as described on Exhibits 5 and 6 to the application, on the effective date of NorthWestern's Plan. NorthWestern's new board of directors will have no discretion over the issuance of the Special Recognition Grants, but will retain some discretion concerning the vesting of the Special Recognition Grants. The Special Recognition Grants will not immediately vest; rather, 50% of the Special Recognition Grants will vest on the effective date of the Plan and, subject to two provisions, 50% of the Special Recognition Grants will vest over the two to three years following the Plan's effective date as such vesting period is determined by NorthWestern's board of directors.

8. Section 69-3-501, MCA provides a public utility may issue securities only for (a) the acquisition of property; (b) the construction, completion, extension, or improvement of its facilities; (c) the improvement or maintenance of its service; (d) the discharge or lawful refunding of its obligations; (e) the reimbursement of money actually expended for said purposes from income or from other money; or (f) any other purpose approved by the commission. The issuance of warrants pursuant to the Second Amended Plan is for the discharge of certain of NorthWestern's obligations. The issuance of stock for an employee incentive plan is a purpose previously approved by the Commission.

9. Public notice of this Application was given by its inclusion on the Commission's agenda for September 21, 2004. Applicant has furnished complete financial data with its application in accordance with the developed practice of the Commission.

CONCLUSIONS OF LAW

The issuance of warrants and additional securities in the form of new common stock proposed by the Application, as hereinafter authorized, will be for a lawful purposes and are consistent with the public interest; is necessary or appropriate for and consistent with the proper performance by Applicant of service as a public utility; and the aggregate amount of the securities outstanding, and proposed to be outstanding, will not exceed the fair value of the Montana utility properties and business of Applicant.

ORDER

1. The application of NorthWestern for authority to authorize Applicant to issue warrants to implement the Harbert Settlement is granted. The application to issue an additional 5.305 million shares of new common stock in order to implement the Harbert Settlement is hereby conditionally granted, subject to the following limitations. The proceeds, if any, associated with the exercise of these warrants must be used for one of two purposes; (1) debt reduction or (2) debt refinancing. If the warrants are not exercised, NorthWestern is not authorized to issue these shares.

2. The application of NorthWestern for authority to authorize Applicant to issue an additional 2.266 million shares of new common stock to implement the Employee Incentive Plan as outlined in the Application is hereby conditionally granted subject to the limitation that any new Employee Incentive Plan be broad-based and available to all employees.

3. In accordance with MCA § 69-3-507, neither the issuance and sale of securities by NorthWestern pursuant to the provisions of this Order, nor any other act or deed done or performed in connection therewith, shall be construed to obligate the State of Montana to pay or guarantee, in any manner whatsoever, a security authorized, issued, assumed or guaranteed under the provisions of MCA §§ 69-3-501 through 69-3-507.

4. Issuance of this Order does not mean acceptance of NorthWestern's exhibits or other material accompanying the application for any purpose other than the issuance of this Order. Approval of this application is for financing purposes only. This approval to issue securities is without prejudice to the regulatory authority of or actions taken by this Commission with respect to ratemaking, rates, service, accounts, valuations, estimates or determinations of cost, or any other matter subject to its jurisdiction as provided by law. The Commission has previously issued financing Order No. 6474a requiring advanced approval of executive compensation incentives, and filed objections before the bankruptcy court to certain executive incentives, related to change of control provisions. The Special Recognition Grants contained in this application are likely to undergo special regulatory scrutiny.

DONE IN OPEN SESSION at Helena, Montana, this 28 day of September, 2004, by a
vote of 5 to 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

BOB ROWE, Chairman

THOMAS J. SCHNEIDER, Vice Chairman

GREG JERGSON, Commissioner

MATT BRAINARD, Commissioner

JAY STOVALL, Commissioner

ATTEST:

Commission Secretary

(SEAL)